

AR61

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Canadian TALON Resources Ltd.

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Notice of Annual General Meeting

The Annual General Meeting of Canadian TALON Resources, Ltd. will be held:

Thursday, June 25, 1998
At 10:00 a.m.

At The Westin Hotel
Brownlee Room
320 – 4th Avenue S.W.
Calgary, Alberta

Management's Message to Shareholders

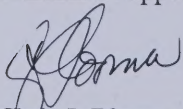
We are pleased to present our shareholders with the first Annual Report for Canadian TALON Resources, Ltd.

Canadian TALON started as a junior capital pool listed on the Alberta Stock Exchange as "TAR" on June 18, 1997. Canadian TALON completed its Major Transaction on September 30, 1997 by acquiring 52,579 barrels of net proven and probable crude oil and 13,011 MCF of net proved and provable natural gas reserves in the Redwater area of Alberta with an effective date of May 1, 1997. Canadian TALON ceased to be a Junior Capital Pool on October 30, 1997.

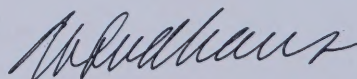
We have considered several strategic directions for Canadian TALON and have determined that the development of infrastructure projects, principally in support of oil and gas operations both domestically and internationally, is the strategic niche that we will pursue. Projects being explored include power generation, crude oil and gas processing, in-field upgrading, marketing and pipeline and other transportation. We are currently in the process of entering into agreements with Pacalta Resources Ltd. which will entitle Canadian TALON to evaluate, upgrade and develop power generation and related infrastructure in support of Pacalta's operations in Ecuador and Columbia. Canadian TALON has also recently completed a private placement of shares and warrants for \$750,000 to a subsidiary of Pacalta. The proceeds from this private placement have been added to our general working capital to fund project development expenses.

Canadian TALON's first infrastructure project will be to utilize solution gas currently being flared by CITY Investing Company, a subsidiary of Pacalta, on its production concession in Ecuador. The project will be designed to generate approximately 15 MW of electrical power to be consumed by CITY in its operations on a long-term basis with a minimum "take". The project is currently estimated to cost twenty million dollars Canadian and should start-up prior to the end of 1998.

We look forward to reporting to you on our activities as we proceed, and to your continued support.



Chris J. Bloomer
President & COO



William S. Sudhaus
Chairman & CEO

April 6, 1998

Review of Operations

Canadian TALON's oil and natural gas assets are comprised of various working interests in properties located in the Redwater area of Alberta. The Redwater interests include proven producing and probable reserves of oil and associated natural gas. There is currently oil production from 16 wells within the Redwater interests.

A McDaniel & Associates Consultants Ltd. Reserve Report, effective May 1, 1997, indicated Canadian TALON's share of net proved and probable oil reserves as 52,579 Bbls and net proved and probable natural gas reserves of 13,011 MCF. For the period May 1, 1997 to December 31, 1997 7,033 Bbls of oil were produced and 3,410 MCF of gas were produced for an estimated net remaining reserves of 45,546 Bbls of oil and 9,601 MCF of natural gas.

Canadian Talon's share of capital expenditures for the period May 1, 1997 through December 31, 1997 were \$5,364. These expenditures were deemed necessary by the operator of the properties in order to maintain facilities. The operator proposed no new wells and there were no material changes to the operations or reserves.

Prior to October 1, 1997 the operator of the properties was HCO Energy Ltd. On October 1, 1997 HCO sold its interest to Pinnacle Resources Ltd. which became the new operator of the properties.



Financial Statements of

CANADIAN TALON RESOURCES LTD.

For Period October 10, 1996, to December 31, 1997

**Chartered Accountants**

2400 Scotia Centre
700 - 2nd Street S.W.
Calgary, Alberta T2P 0S7

Telephone: (403) 267-1700
Fax: (403) 264-2871

Auditors' Report

To the Shareholders of
Canadian TALON Resources Ltd.:

We have audited the balance sheet of **Canadian TALON Resources Ltd.** as at December 31, 1997, and the statements of loss and deficit and changes in financial position for the period October 10, 1996, to December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997, and the results of its operations and the changes in its financial position for the period October 10, 1996, to December 31, 1997, in accordance with generally accepted accounting principles.

Calgary, Alberta
March 26, 1998

Chartered Accountants

CANADIAN TALON RESOURCES LTD.

Statement of Loss and Deficit

Period From October 10, 1996, To December 31, 1997

	<u>\$</u>
REVENUE	
Petroleum and natural gas sales	186,413
Royalties	(32,774)
Alberta royalty tax credit	7,415
Interest income	4,823
	<u>165,877</u>
EXPENSES	
Depletion	88,300
Future site restoration and abandonment	4,359
General & administrative	22,538
Operating	51,125
	<u>166,322</u>
NET LOSS AND DEFICIT, END OF PERIOD	<u>(445)</u>
EARNINGS PER SHARE (Note 4)	<u>0.00</u>

CANADIAN TALON RESOURCES LTD.

Balance Sheet

December 31, 1997

\$

ASSETS

CURRENT

Cash	82,894
Accounts receivable and prepaids	<u>65,598</u>
	148,492

PETROLEUM AND NATURAL GAS PROPERTIES (Note 3)

455,201
603,693

LIABILITIES

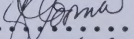
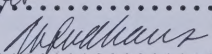
CURRENT

Accounts payable	7,497
Provision for future site restoration and abandonment	<u>4,359</u>
	11,856

SHAREHOLDERS' EQUITY

Share capital (Note 4)	592,282
Deficit	<u>(445)</u>
	591,837
	<u>603,693</u>

APPROVED BY THE BOARD

.....  Director
.....  Director

CANADIAN TALON RESOURCES LTD.

Statement of Changes in Financial Position

Period From October 10, 1996, To December 31, 1997

	<u>\$</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES	
OPERATING	
Net loss	(445)
Items not affecting cash	
Depletion	88,300
Future site restoration and abandonment costs	<u>4,359</u>
	92,214
Changes in non-cash working capital items	<u>(58,101)</u>
	<u>34,113</u>
FINANCING	
Net proceeds from issuance of shares	<u>592,282</u>
INVESTING	
Purchase of capital assets	<u>(543,501)</u>
NET CASH INFLOW AND CASH POSITION, END OF PERIOD	<u><u>82,894</u></u>

CANADIAN TALON RESOURCES LTD.

Notes to the Financial Statements

Period From October 10, 1996, To December 31, 1997

1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. The Company has one cost centre, being Canada. Such costs include those associated with property acquisition, exploration and development activities. The Company does not capitalize general and administrative expenses.

Capitalized costs are depleted and depreciated on the unit of production basis. Proved petroleum and natural gas reserves and production volumes (before royalties) are converted into a common unit of measurement on the basis of their approximate relative energy content. Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether or not proved reserves are attributable to the properties or impairment occurs.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount from future net revenues using proved reserves and December average prices, plus the net costs of major development projects and unproved properties, less future site restoration and abandonment costs, overhead, financing costs, and income taxes. If the net carrying costs exceed the ultimate recoverable amount, additional depletion and depreciation is provided.

Future Site Restoration Abandonment Costs

Estimates are made of the future site restoration and abandonment costs relating to the Company's petroleum and natural gas properties at the end of their economic life, in accordance with current legislative requirements and industry practice. Annual charges are provided for on the unit-of-production basis.

Joint Ventures

All of the Company's exploration, development and production activities are conducted jointly with others, and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

CANADIAN TALON RESOURCES LTD.

Notes to the Financial Statements

Period From October 10, 1996, To December 31, 1997

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Company follows the tax allocation method of accounting for the tax effect of the timing differences between taxable income and income as recorded in the financial statements. Timing differences arise when, for income tax purposes, the Company deducts exploration and development expenditures and capital cost allowances in amounts differing from those charged to expense in the financial statements.

2. MAJOR TRANSACTION

On September 30, 1997, the Company completed the closing of its major transaction by acquiring certain oil and natural gas properties in the Redwater area, Alberta, from Trio Gold Corp. with an effective ownership and operating date of May 1, 1997. The assets were acquired in exchange for 800,000 common shares of the Company (of which 312,500 common shares are held in escrow) at a deemed price of \$0.25 per common share and \$300,000 in cash. Commission costs related to the purchase and sale agreement were settled by way of an issue of 150,000 common shares of the Company at a deemed price of \$0.25 per common share for total costs of \$37,500.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	Cost \$	Accumulated Depletion \$	Net Book Value \$
Petroleum and natural gas properties	543,501	88,300	455,201

CANADIAN TALON RESOURCES LTD.

Notes to the Financial Statements

Period From October 10, 1996, To December 31, 1997

4. SHARE CAPITAL

Authorized

Unlimited number of no par value common shares.

Unlimited number of preferred shares with rights, privileges and conditions to be determined by resolution of the Board of Directors.

Summary of common share transactions:

	Number of shares	Amount \$
Issued to founders (iii)	4,500,000	225,000
Issued pursuant to Initial Public Offering	2,250,000	225,000
Issued in exchange for acquisition of oil and natural gas properties (iii)	800,000	200,000
Issued in settlement of commission costs related to acquisition	150,000	37,500
Issued pursuant to share option plan	10,000	1,000
Share issue costs	-	(96,218)
	<u>7,710,000</u>	<u>592,282</u>

(i) Options

As at December 31, 1997, options to purchase 890,000 common shares for cash consideration of \$89,000 at \$0.10 per share were outstanding. The options expire November 13, 2001.

On January 28, 1998, options to purchase 52,000 common shares at \$0.10 were exercised.

(ii) Earnings per share

	\$
Earnings per share	0.00
Weighted average number of common shares outstanding during the period	<u>6,505,479</u>

Fully diluted earnings per share is not disclosed as the impact of potentially dilutive securities is anti-dilutive.

CANADIAN TALON RESOURCES LTD.

Notes to the Financial Statements

Period From October 10, 1996, To December 31, 1997

4. SHARE CAPITAL (Continued)

(iii) Shares held in Escrow

At December 31, 1997, 4,500,000 shares were held in escrow on behalf of founders, officers and directors. One-third of the shares are to be released September 30 on each of the years 1998, 1999, and 2000.

In addition, 312,500 shares were held in escrow subject to an escrow agreement between the Company and Trio Gold Corp. The terms of the agreement provide for release from escrow of 62,500 shares at each of March 31, 1998, June 30, 1998, September 30, 1998, December 31, 1998 and March 31, 1999.

5. INCOME TAXES

The Company has a nominal loss for income tax purposes in the current year. The Company has not recorded the potential future tax benefit of this loss in these financial statements.

The Company has differences in the tax basis of its assets from the book values of these assets due to variances in depletion for accounting purposes and allowable tax deductions, and other items that result in permanent and deferred timing differences. The Company has not reflected the net impact of these differences in these financial statements because the Company has no income for accounting or tax purposes at this time.

At December 31, 1997, the Company had tax pools available to reduce future years' taxable income of approximately:

	<u>\$</u>
Cost of Canadian oil and gas property	360,000
Undepreciated capital costs	<u>92,192</u>
	<u>452,192</u>

CANADIAN TALON RESOURCES LTD.

Notes to the Financial Statements

Period From October 10, 1996, To December 31, 1997

6. FINANCIAL INSTRUMENTS

The Company's financial instruments included in the balance sheet are composed of accounts receivable and current liabilities.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Credit risk

Virtually all of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

7. SUBSEQUENT EVENT

Subsequent to year end, the Company carried out a private placement of 1,875,000 units at a price of \$0.40 per unit for total consideration of \$750,000. Each unit consists of one common share of the Company and 0.8 common share purchase warrants. Each whole common share purchase warrant entitles the holder to purchase a common share of the Corporation for \$0.50 at any time on or before February 26, 2000.

CORPORATE DIRECTORY

CORPORATE OFFICE

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T2P 2Y5
Telephone: (403) 266-4333
Facsimile: (403) 266-4561

DIRECTORS

William S. Sudhaus
Strafford, Pennsylvania

Chris J. Bloomer
Calgary, Alberta

M. Bruce Chernoff
Calgary, Alberta

Ben R. Pollner
London, England

Christopher J. Robb
Calgary, Alberta

John D. Wright
Calgary, Alberta

OFFICERS

William S. Sudhaus
Chairman, C.E.O., & C.F.O.

Chris J. Bloomer
President & C.O.O.

Craig R. Culbertson
General Counsel

LEGAL COUNSEL

Ogilvie and Company

BANKER

National Bank of Canada

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada

AUDITORS

Deloitte & Touche

STOCK EXCHANGE

The Alberta Stock Exchange
Trading Symbol: **TAR**

